

ANNUAL REPORT

YEAR ENDED DECEMBER 31, 1939



NATIONAL BISCUIT COMPANY

NATIONAL BISCUIT COMPANY

449 West Fourteenth Street, New York

To the Stockholders:

Gross sales in 1939 were \$98,078,477 compared with \$97,486,877 in the year 1938. Net income for 1939 was \$12,334,004 compared with \$12,799,770 for 1938.

The volume of sales in dollars for the year was maintained even at decreased selling prices of our products. The sales in tonnage were 7% in excess of the year 1938, enabling us to operate our bakeries at greater capacity and thus provide greater employment.

Depreciation has been charged in the amount of \$3,066,772 as compared with \$2,871,499 in 1938. This is an adequate allowance and follows the Company's established practice.

As stated in previous reports, the nature of our business is such that inventories, both raw materials and

finished product, can little exceed current needs, and the Company does not enter into future commitments at any time in such amount as to affect its financial position materially.

As of the end of the year 1939 the Company's investments in its foreign subsidiaries amounted to \$6,140,000, of which two-thirds are in Canada and one-third in England. These foreign investments are included in the Consolidated Balance Sheet and are substantially the same in amount as the original investments.

That this favorable condition exists at this time is explained by the fact that the Company has consistently followed the practice of having remitted to it current earnings of these subsidiaries, as surplus cash arising from their operations became available.

The result of this policy is that at the close of the year only \$643,920 of our foreign investments was represented by net current assets or working capital, a minimum figure consistent with maintaining operations abroad and therefore not available for transfer at this time. To provide for the decline in the conversion of these foreign net current assets and to reduce their value to equivalent United States dollars according to the prevailing exchange rates, we have written them down in the amount of \$105,752.80, which was charged against earnings for 1939 as indicated in the Consolidated Income statement.

During the year, profits arising from our foreign business operations, and amounting in 1939 to a little less than twelve per cent of the total earnings, have been included in the Company's earnings in terms of United States dollars. The transfers of surplus cash during the year applying to such earnings have been made with only a slight degree of loss arising from exchange decline and such loss has been absorbed.

Where the full amount of 1939 earnings has not already been remitted to us, satisfactory arrangements have been made with the Foreign Exchange Control Boards to permit this to be done. Any exchange losses attendant on such transfers are anticipated in the charge of \$105,752.80 against 1939 earnings mentioned earlier in this report.

Both Canada and England at this time are on a so-called permit basis, offering no unreasonable restrictions against the continued withdrawal of earnings. Our foreign business operations continue normally.

We have in course of construction in Atlanta, Ga. a biscuit bakery of new design, more efficient and architecturally more attractive than bakeries of the past. It is to be a daylight bakery, one story high and lighted during the day through sawtooth skylights. Heat and ventilation will be provided by an internal system of forced draft and mechanical exhaust. Refrigeration and air conditioning will be utilized during various

steps of the manufacturing process. The plant has been designed to provide maximum flexibility, permitting future expansion in all departments. The first unit now being built is 1200 feet long and will have approximately 400,000 square feet of floor space. From the reception of raw materials, straight through the baking to the biscuit sealed in their cartons and bundles, all manufacturing operations will be on one floor, but there will be mezzanine galleries to house employee facilities such as cafeteria, showers, rest rooms and first aid department. Building and Equipment with additions contemplated in the future will represent an investment of approximately \$3,200,000 and will give us improved product at reduced cost. Atlanta will also be able to manufacture practically all of the output required for the southeastern territory, where our business is steadily increasing.

Land has been purchased in Denver, Colo. on which we plan to erect a modern and efficient bakery to replace the one now there which is no longer a satis-

factory manufacturing unit. With this new bakery we will be in a better position to supply the Rocky Mountain section with locally produced merchandise, eliminating the necessity of shipping considerable merchandise from other points.

Early in the year we introduced a new type of packaged bran which took some time to develop as we wanted to put out a product that was superior to anything previously on the market. We were materially aided in this in having our own flour mill in Toledo, Ohio, where the raw bran could be produced in a way best suited to give a high grade processed result. Sales have been gratifying in those districts where this product has been distributed and it promises to bring in steadily increasing business.

The consolidated balance sheet of the Company at December 31, 1939, and the income and surplus account on the following pages show the financial condition of the Company at the close of its 42nd fiscal year.

ROY E. TOMLINSON, *President.*

CONSOLIDATED

ASSETS

| | December 31, 1939 | December 31, 1938 |
|---|-------------------------|-------------------------|
| Cash | \$29,931,610.51 | \$30,121,726.68 |
| U. S. Bonds (Quoted Market 12/31/39—\$780,117.18) | 757,500.00 | 757,500.00 |
| Municipal Bonds (N. Y. City) (Quoted Market 12/31/39—\$21,725.00) Note: \$419,000.00 Principal Amount U. S. and Municipal Bonds deposited for special reasons. | 18,500.00 | 18,500.00 |
| Accounts Receivable | 2,462,223.09 | 2,572,628.09 |
| Raw Materials, Supplies and Finished Product (At Cost or Market, whichever is lower, less Special Inventory Reserve of \$1,019,381.51 charged to prior earnings.) | 9,481,998.80 | 7,750,351.35 |
| Total Current Assets | \$42,651,832.40 | \$41,220,706.12 |
| Notes and Mortgages Receivable | 304,801.16 | 292,340.59 |
| Notes and Accounts of Officers and Employees (For Capital Stock Subscriptions.) | — | 129,530.00 |
| Company's Capital Stock Purchased for Resale to Employees (Quoted Market 12/31/39—\$218,145.00) | 157,877.00 | 157,877.00 |
| Plants, Real Estate, Machinery, Intangibles, etc. (At Cost in Cash or Capital Stock, Less Allowances for Depreciation.) | 81,336,066.37 | 82,282,227.28 |
| Prepaid Expenses and Deferred Charges | 1,020,159.36 | 903,020.20 |
| Total | <u>\$125,470,736.29</u> | <u>\$124,985,701.19</u> |

NOTE: The Company's investments in and earnings of subsidiaries in Canada and England, included in the Consolidated Balance Sheet and Income Account, are indicated in the President's report.

BALANCE SHEET

LIABILITIES

| | December 31, 1939 | December 31, 1938 |
|--|-------------------------|-------------------------|
| Accounts Payable (Purchase Invoices, Pay Rolls and other Accruals not due for payment.) | \$2,029,003.37 | \$1,896,394.19 |
| Reserve for Federal and Foreign Income Taxes | 4,825,558.96 | 4,627,091.10 |
| Total Current Liabilities | \$6,854,562.33 | \$6,523,485.29 |
| Insurance and Contingent Reserve | 7,705,924.79 | 7,701,253.10 |
| Capital Stock, Preferred (Par Value \$100.00—7% Cumulative) Shares authorized 250,000, issued 248,045 | 24,804,500.00 | 24,804,500.00 |
| Capital Stock, Common (Par Value \$10.00) Shares authorized 12,000,000, issued 6,289,448 | 62,894,480.00 | 62,894,480.00 |
| Earned Surplus | 13,555,255.63 | 13,405,969.26 |
| Capital Surplus | 9,656,013.54 | 9,656,013.54 |
| Total | <u>\$125,470,736.29</u> | <u>\$124,985,701.19</u> |

CONSOLIDATED INCOME AND EARNED SURPLUS

YEAR — 1939

Earnings for the year 1939:

| | | |
|---------------------------|-----------------|-----------------|
| From Operations | \$18,742,964.58 | |
| Other Income | 187,679.83 | |
| Total | | \$18,930,644.41 |

Less:

| | | |
|--|-----------------|-----------------|
| Depreciation | \$ 3,066,771.91 | |
| Provision for Federal and Foreign Income Taxes . . | 3,424,114.92 | |
| Provision for Foreign Exchange Loss | 105,752.80 | 6,596,639.63 |
| Net Earnings for the year | | \$12,334,004.78 |

Less:

| | | |
|--|--|-----------------|
| Write-down of Plants, Real Estate, Machinery, Intangibles, etc. Account, in addition to above depreciation allowance | | 400,302.61 |
| Balance of Net Earnings credited to Surplus . . | | \$11,933,702.17 |

| | |
|--|-----------------|
| Earned Surplus December 31, 1938 | \$13,405,969.26 |
|--|-----------------|

Less:

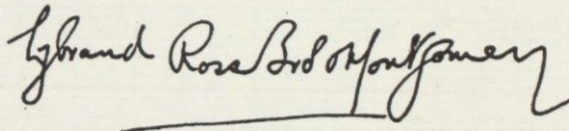
| | | |
|--|-----------------|------------------------|
| Preferred Dividends Paid | \$ 1,735,699.00 | |
| Common Dividends Paid | 10,048,716.80 | 11,784,415.80 |
| Earned Surplus December 31, 1939 | | <u>\$13,555,255.63</u> |

REPORT OF AUDITORS

The President and Board of Directors,
NATIONAL BISCUIT COMPANY,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of National Biscuit Company and its subsidiary companies as of December 31, 1939, and the consolidated statement of income and surplus for the fiscal year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying balance sheet and related statement of income and surplus present fairly the consolidated position of National Biscuit Company and its subsidiary companies at December 31, 1939, and the consolidated results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.


A handwritten signature in cursive script, reading "Lybrand Rose Brod Montgomery", with a horizontal line drawn underneath.

New York, N. Y.
January 31, 1940

BOARD OF DIRECTORS

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GEORGE H. COPPERS, *General Counsel*

TRANSFER AGENT

GUARANTY TRUST COMPANY
NEW YORK

REGISTRAR

FIRST NATIONAL BANK
NEW YORK

